

Unlock Hidden Benefits: A Guide to NQDC Opportunities

While inflation has cooled over the past 18 months, the labor market has stayed hot. The June jobs report shows the labor force participation rate, the level of working-age people who are employed or actively searching for a job, continues to rise. In the prime age range, focusing on ages 25 to 54, the rate rose to 83.7%. This is the highest rate in more than 22 years.

This data continues to highlight the need for attractive and flexible recruitment and retention strategies. A well designed and administered nonqualified deferred compensation plan offers benefits and flexibility to both the company and their executives not found in other solutions.

Employer

- NQDC has become a core benefit expected by top executives
- Custom vesting schedules for employer contributions provides a strong retention element
- Informal funding arrangement optimized to meet the goals and objectives of the company
- Shareholder friendly - voluntary deferrals provide significant benefits while not requiring additional compensation to the executive

Executive

- Deferral of compensation above and beyond qualified (401k) plan limits
- Compensation deferrals and any company contributions grow tax-deferred
- Provides an additional financial planning tool through the use of penalty-free in-service distributions
- Ability to manage each plan year independently: deferral amount, investment strategy, distribution timing and frequency

Below are several profiles we have identified as NQDC opportunities. Updating to a best-in-class plan design and/or moving to a specialized recordkeeper with an expertise in client education often leads to growth in both participation and total plan balance which may require reevaluating the informal funding strategy.

Existing Client/Advisor Relationship

- Current NQ plan with large balance in mutual funds - potential COLI opportunity
- Client headquartered in high income tax state

Poorly Designed Existing Plan

- Current plan does not maximize flexibility of distribution options: In-Service, Annual Installments (10+), Re-deferral Options
- Limited compensation types available for deferral

Existing NQDC Plan Administered by 401k Recordkeeper

- Limited capabilities in plan design options, participant support or reporting
- Recordkeeping and administrative errors

Connect with Nolan Financial

Whether you have a current client that could benefit from a new plan, a consultation on an active plan or you would like to present a more complete solution to a prospective client, please contact Michael Nolan, NolanM@nolanfinancial.com, or Kenton Quick, QuickK@nolanfinancial.com, at the emails provided or by phone at 301-907-9500.